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SUBJECT: COSTA RICAN PORTS: ANOTHER CAFTA SAGA IN THE MAKING?

REF: 2008 Sao Paulo 612

**¶11. (SBU) SUMMARY.** Stakeholders in the operation of Costa Rica's major port, the Limon-Moin complex on the Caribbean, struggle to find a solution to the competing interests of delivering international port services, developing the impoverished Limon region, upgrading long-neglected port plant and capacity, and introducing flexible rules to the stubborn work force. With CAFTA-DR's entry into force on January 1, 2009, free trade agreements under negotiation with the EU, China, and Singapore, and the US Container Security Initiative deadline of July 2012 looming, Costa Rica faces the complex, interrelated challenges of meeting rising demand for exporting and importing goods, handling cargo in a safe and efficient manner, addressing regional development needs, and dealing with the powerful local union. This fight may be as tough as passing CAFTA. END SUMMARY.

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MEET THE PLAYERS  
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**¶12. (U)** There are three major players in this drama. One is the port authority for Limon and Moin, the Junta de Administracion Portuaria y Desarrollo Económico de la Vertiente Atlántica (JAPDEVA). Part port operator and part redevelopment authority, JAPDEVA relies on equipment that is only 40 percent operational to move 80 percent of Costa Rica's port traffic. The second player is the GOCR, which is pushing for a concession solution which would modernize existing facilities plus build a new port near Moin (a USD 600 million package). The third player is the Sindicato de Trabajadores de JAPDEVA (SINTRAJAP), the dock workers' union, which supports port modernization but adamantly opposes a private concession which would replace JAPDEVA.

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JAPDEVA MODEL: THE PORT PAYS FOR THE PROVINCE  
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**¶13. (U)** The Caribbean coastal province of Limon is Costa Rica's most backward, by all socioeconomic measures. Long disconnected from the Central Valley due to poor transportation links and cultural and racial differences, the region's economic development continuously lagged behind other parts of the country. In 1973, the GOCR backed the idea of port development in the provincial capital of Limon in order to jump start regional development. With the creation of JAPDEVA, a reasonable solution seemed to be in hand (at the time). JAPDEVA's operating principle was and still is founded on the following model: port operations produce revenue which funds economic development for the Limon region. Though the model initially delivered a modicum of social services to the area, today, one in three Limon residents live in poverty and unemployment is pushing upwards of seven percent. Also, a homicide rate of 19 per 100,000 (nationally, the average is 10 per 100,000) highlights

growing criminality in Limon. Limon is the poorest and most violent part of Costa Rica.

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THE CHALLENGE OF "JAP" VERSUS "DEVA"  
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**¶14.** (U) The JAPDEVA model functioned well enough for decades as the port operations -- "JAP" -- provided funds for the government-like assistance agency -- "DEVA." Nonetheless, the acceleration of global trade increasingly illuminated the operating deficiencies at the Limon-Moin port complex, and begged the question about JAPDEVA's core mission: is it a logistical operation or a development assistance agency? This has become the key issue of the Limon port conflict (and perhaps the greatest obstacle to its modern success). Late last year officials at JAP emphasized to us that port operations were primary.

**¶15.** (U) SINTRAJAP officials stress the benefits that JAPDEVA, re: "DEVA," produces for Limon: roads, schools, community centers, and social programs, which they say are key to Limon's vitality. From the SINTRAJAP point of view, no JAPDEVA means no more development assistance for Limon; they are not confident the central government in San Jose would pick up the slack. While claiming full support for the modernization of the Limon-Moin port facilities, SINTRAJAP opposes a private concession tender as it would supplant the union's beloved "DEVA." Economics, Industry, and Coordination Minister Marco Vargas acknowledged to us that the different objectives of JAP and DEVA lie at the core of the port problem.

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THE ARIAS ADMINISTRATION CHARTS A NEW COURSE  
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**¶16.** (SBU) The relationship between JAPDEVA and the GOCR changed with the election of President Oscar Arias in 2006. Early on, the Arias administration indicated its interest in tendering Limon-Moin port operations to a private concessionaire. At the much smaller port of Caldera on the Pacific, the GOCR completed a successful concession with a Colombian company in 2006. But, on the Caribbean, SINTRAJAP pressed the Arias administration to modernize port operations by maintaining the JAPDEVA management/ local development structure and to halt the concessionaire strategy. From 2006-2007, the GOCR and SINTRAJAP engaged in a series of negotiations aimed to settle past disagreements through cash payments to SINTRAJAP. Talks were complicated by the backdrop of the CAFTA debate. SINTRAJAP was egged on by their public sector union brothers, who were among the most vocal opponents of CAFTA. GOCR toughness with the port workers waxed and waned, linked to how well (or not) the CAFTA debate was proceeding in the national legislature and around the country.

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THE FORCEFUL VOICE OF LABOR  
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**¶17.** (SBU) In mid-2007, during a dispute over work schedules, the GOCR paid SINTRAJAP USD 7 million to accept a work schedule of three eight-hour shifts and no overtime, displacing the prevailing union system of four six-hour shifts plus overtime. (The dispute and apparent resolution helped the GOCR put out one political "fire" as the CAFTA question headed for a contentious national referendum.) However, SINTRAJAP continued its work slowdown, delaying export and import services. With the CAFTA fight on its mind, the GOCR then reversed its position and agreed to the union work schedule demands in order to avoid further stoppages or slowdowns. However, Costa Rica's Constitutional Court ruled in favor of eight-hour shifts and the GOCR's Controller demanded that JAPDEVA stop paying permanent overtime. (COMMENT: This confusing mix of government, union, court, and Controller is typical of the "governability" challenges facing Costa Rica. END COMMENT.)

**¶18.** (U) With the Controller's decision, and the Court's ruling (neither of which JAPDEVA could easily challenge), negotiations on pay stopped. The GOCR reverted to its original position, insisting on eight-hour shifts, plus the addition of 100 new positions. In October 2008 (with CAFTA finally ratified and headed for implementation), the GOCR proceeded with its private concession strategy by proposing a USD 80 million severance payment to

SINTRAJAP's work force (a USD 57,100 per person proposition). SINTRAJAP countered the offer by opposing a private concession (again) and demanded a USD 500 million payment (i.e. USD 357,100 per person). Minister Vargas described the counter offer as "absurd."

**¶9.** (U) Earlier this year, SINTRAP threatened to "strike indefinitely" if the GOCR were to tender a modernization/development concession to a private operator. The union's most recent demands consist of: refusal of any private concession, investment by the (GOCR) of USD 80 million to upgrade the Limon-Moin port facilities (in lieu of severance), and loosen JAPDEVA's legal/budgetary restrictions so that it can compete (i.e., with the new port).

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PORT OPERATIONS: SLOW, COSTLY AND BEHIND-THE-TIMES  
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**¶10.** (U) Ports officials at JAPDEVA and an official at the shipping company Maersk have described to us the following problems hampering operations at Limon and Moin:

-- The typical waiting time per vessel is 42 hours. Through better management and efficiencies, the wait time can be reduced to 22 hours;

-- At Limon, only one of two heavy lift cranes function;

-- There are no such cranes in Moin (vessel-based cranes move containers to/from the dock);

-- On average, only 40 percent of all equipment is functional;

-- More automatic operations are desperately needed. This would eliminate on-site payment of services and streamline documentation processing;

-- Inflexible work force rules degrade port services;

-- Shippers need space for container yards adjacent to the docks; these do not exist at either Limon or Moin; and

-- JAPDEVA is limited by its internal cash flow. With annual revenue of USD 28 million, only USD 9 million remain after expenses for investment in modernization. At a projected cost of at least USD 500 million, financing such a sum with annual debt payments of USD 9 million would take over 50 years.

**¶11.** (U) A comparison to Brazil's Santos port illustrates the challenges facing Limon-Moin. The current Limon-Moin workforce of 1,300 full time workers handled 2 million tons of container cargo or 1,430 tons per employee in 2007. At Santos, the port's 1,400 workers handled 57,250 tons per employee in 2007, up from 4,000 tons per employee in 1993 (Reftel). Over the past fourteen years, Santos' work force decreased by over tenfold while the tons per employee increased by over fourteen-fold. And, Santos plans to modernize further as demand continues to outpace capacity. Already at a disadvantage, and nearly 40 times less productive than Santos, Limon-Moin is only falling further behind in comparison to a major international port.

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SO, BUY THEM OFF OR BUILD AROUND THEM  
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**¶12.** (U) A private concession represents the first step forward for the GOCR with its vision of Caribbean port services. On January 27, the GOCR hosted thirteen candidate concessionaires -- representing operators from Asia, Europe, and the Americas -- for a presentation of the potential of the Limon-Moin operation. The GOCR presented the concession as a three-part package: (1) port operations, (2) the design/build development of the new port north of Moin, and (3) towing services. Interest was cautiously optimistic; however, concession interest would dramatically increase if there were a severance agreement between the GOCR and SINTRAJAP.

**¶13.** (U) The current SINTRAJAP labor agreement extends to 2012,

which creates a dilemma for the GOCR. If the GOCR does not push for a severance agreement, any action on a private concession may be difficult at best, as candidate concessionaires likely will steer clear of working with SINTRAJAP under current terms. If the GOCR pushes too hard for a severance settlement (to get SINTRAJAP out of the way of a new concession), the union has proven it can make trouble by more work slowdowns or stoppages, which would then jeopardize 80 percent of the country's cargo.

**¶14.** (U) With the 2010 national elections less than one year away, the Arias administration is likely loathe to stir up a high-profile labor dispute. However, the GOCR clearly looks to the new port north of Moin as a longer-term strategy to avoid labor problems in the future. Planned to be operational in 2016, the new port would commence operations with or without union support since the new port is not part of the current JAPDEVA complex.

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THE GOCR'S PORT DREAMS  
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**¶15.** (U) The GOCR's long range plan for the Limon-Moin complex entails revising the function of the facilities of Limon and Moin. (The port plan is based on a study by the Dutch firm of Royal Haskoning, which was 75 percent paid for by the Netherlands.) At an approximate cost of USD 600 million, the development plan prepares Costa Rica for an estimated twofold increase in container traffic by 2030 -- from a 2007 volume of 2 million tons to a projected volume of over 4 million tons in 2030, as follows:

-- Limon, which today caters to both container and cruise ship traffic, would convert to a 100 percent cruise ship operation by **¶2016**. In the meantime, the addition of two new mobile cranes and eight straddle carriers would increase capacity;

-- Moin would modernize through the addition of four mobile cranes, and expand through the construction of new docks to accommodate larger cargo vessels; and

-- The new port north of Moin would commence operations in 2016 (replacing Limon) with six portable cranes, fifteen rubber-tire gantry cranes, and space for 36 tractor trailers. By 2030, the new port would add additional equipment, doubling capacity to twelve portable cranes, 30 rubber-tire gantry cranes and space for 72 tractor trailers.

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COMMENT  
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**¶16.** (SBU) Costa Rica hopes to resolve its "port problem" without another painfully protracted CAFTA-like struggle. Several aspects of the port conflict mirror the CAFTA-DR debate: long-standing and stubborn union opposition to the Arias Administration, political opposition in the form of partisanship in the national assembly, and weariness with the issue by those not directly affected (until a work slowdown alters the flow of goods). With only eight months of effective governing time remaining, the Arias Administration will be hard pressed to produce a creative but consensus-oriented, Tico-style solution that delivers port operations and development rights to a private concessionaire. Significant port reform is needed, however, whether completed by Arias or his successor. In the meantime, the "port problem" remains a significant obstacle to Costa Rican development.

CIANCHETTE